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## Hungary

## Tobacco and Products

## Annual

## 2003

Approved by:

**Paul Spencer-MacGregor**

**U.S. Embassy Vienna**

Prepared by:

Dr. Ferenc Nemes

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**Report Highlights: Report Highlights: Hungary's import duties on tobacco will decline with EU membership. Income from producing tobacco will increase with Hungary's EU membership in 2004. At the same time, cigarette production is declining. Retail prices will increase, due to higher taxes. The value of the unmanufactured tobacco imports was \$ 9 million and exports were \$ 3.5 million in 2002 - these figures are unlikely to change in 2003.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Vienna [AU1], HU

## **Production**

Coming off of a low year, Hungary's tobacco planted area increased in 2002. The government is encouraging a larger crop to take advantage of the EU production quota that will go in force next year with EU membership. The starting quota for Hungary is 12,355 MT dry tobacco but this volume of production has not been achieved for over a decade. The country's main tobacco producing regions are underdeveloped and suffer high unemployment and tobacco production plays an important role in some areas.

About 55 percent of tobacco area is devoted to Virginia and 45-50 percent to Burley types. The old domestic varieties, mainly Dark Sun and Air Cured tobacco, are rarely seen anymore (and are no longer listed in the PS&D tables below). Modern seedling propagation methods, supported by both the government and industry, have improved planting results, led to a more homogenous crop, and also helped the spread of preferred varieties.

## **Consumption**

Domestic tobacco production supplies about one third of the cigarette industry's total demand. Along with slightly decreasing cigarette production, the importance of exports to Hungarian producers is increasing, especially to neighboring countries.

The Hungarian government approved a new anti-smoking law in 1999. Retail shops and supermarkets have taken steps to prevent those under 18 from buying cigarettes and generally cigarettes are provided only by cashiers (instead of vending machines). Tobacco product advertisement were banned from print media since June 2001 and billboard advertisements since January 2002.

The 2004 EU membership is going to change the consumption pattern of domestic vs. imported cigarettes due to import tariff changes and the different excise tax on tobacco in Hungary and the neighboring countries. Even today tobacco products are much more expensive in Hungary than in any of the neighboring six countries (except Austria). Most international brands cost half as much in Romania as in Hungary. According to statistics, sales of cigarettes dropped from 21.8 bn pieces in 2000 to 20.6 billion in 2002. But smoking did not decrease. The window has been filled by the increasing use of cut tobacco and the considerable illegal imports.

## **Production Policy**

The Hungarian government provides tobacco producers with several kinds of production subsidies including: support for irrigation, new variety research, and a write off on part of the tax on diesel fuel used to dry tobacco. In addition, farms may apply for investment subsidies through competitive bidding. The government paid HUF 300 million (USD 1.1 million) in quality premiums for tobacco produced in 2002. In 2003, the Hungarian government is providing a larger quality bonus for the Virginia and Burley tobacco as part of its policy transition to full EU membership in May 2004. EU membership will considerably increase the production support on the above two kinds of tobacco (even if farms receive only 55% of normal EU subsidies). Hungary's EU support quota, 12,355 MT dry tobacco, has not been reached in the last several

years. Some econometric models predict the increase of per hectare support in the first year of the EU membership may be above 60 percent.

## Trade

Fluctuations in Hungary's tobacco imports reflect international prices and re-exports rather than simply annual cigarette production. The main countries of origin are generally the same year to year (the United States, Turkey and some African countries). The value of the unmanufactured tobacco imports was USD 9 million and exports were USD 3.5 million in 2002. These figures are unlikely to change in 2003.

Export Trade Matrix

			Country
Hungary			Commodity
Tobacco, Unmfg., Total			Time period
CY 2001	Units:	MT	Exports for:
		1	U.S.
0	U.S.		Others
	Others		Egypt
1124			Romania
760			Great Britain
216			Switzerland
142			
Total for Others	2242		0Others not Listed
1287			Grand Total
3529		0	

Import Trade Matrix			Country
Hungary			Commodity
Tobacco, Unmfg., Total			Time period
CY 2001	Units:	MT	Imports for:
		1	U.S.
991	U.S.		Others
	Others		Malawi
1631			Turkey
1144			Greece
1260			Zimbabwe
465			
			Total for Others
4500		0	Others not Listed
3526			Grand Total

9017		0	
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### **Tariff Changes (Tobacco)**

MFN tariffs for leaf tobacco remained unchanged for 2003: 51.2 percent (the tariff for oriental tobacco is 32 percent). The total Tariff Rate Quota (TRQ) of 6,528 MT also did not change :

2401 10 Leaf tobaccos (excluding 2401 1060 and 2401 1090) - 47 percent

2401 10 9000 - 8 percent

2401 20 Tobacco w/o stem (excluding 2401 2060 and 2401 2090) - 47 percent

The common external tariff of the EU for tobacco is 18.4%. From the country's EU accession, next May, the import tariff of U.S. leaf tobacco will be reduced, but at the same time tobacco from European sources (about twenty percent of the total) will be duty free.

### **Cigarettes**

Cigarette production is slowly decreasing along with consumption. In 1999 22.9 billion pieces were domestic produced and this fell to 19.7 billion in 2002. Industry representatives reject these statistics, saying that the black market in cigarettes (accounting for an estimated 5-10 percent of production) make official consumption calculations inaccurate. In spite of stagnating production, the industry has invested a lot into quality improvement. There has also been a reduction in the number of non-filtered brands.

Hungary must reach the EU's excise tax level on tobacco products by 2009. This means the increase of the tax in the retail price from the actual 44 % to 57%. The government increased the excise tax on tobacco products two times in 2002 and again this April - a total 53.7 percent increase. Due to a different schedule for implementing EU tax policies, tobacco products prices in neighboring Slovakia may be cheaper than in Hungary during the first year of the EU membership. This may cause marketing and competitiveness distortion in the cigarette market (see also at Leaf Tobacco, Consumption).

**Tariff Changes (Cigarette)**

MFN import tariff rates on processed tobacco products did not change for 2003. Tariff rates are as follows:

Tariff number

Commodity	Tariff, percent, ad val.	
		2402.10 .000
Cigar, all kinds	48	2402.20 .004
Cigarettes	57.6	2402.90 .001
Other	57.6	2403.10 .011
Pipe tobacco	57.6	2403.10 .996
Other (&above 250g)	57.6	2403.10 .003
Homogenized regained tob.	57.6	2403.99 .007
Other (tob. derivates)	57.6	

After the May, 2004 joining of Hungary to the EU, the import tariff on cigarettes will drop to 10%.

## Tobacco PS&amp;D

PSD Table						
Country	Hungary					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Area Planted	5100	5100	6000	5500	0	5800
Beginning Stocks	8900	8900	7600	7600	7500	7000
Farm Sales Weight Prod	10900	10900	12140	10650	0	12000
Dry Weight Production	8900	8900	10000	8700	0	9200
U.S. Leaf Imports	3100	3100	3000	2500	0	3000
Other Foreign Imports	7200	7200	7000	5000	0	6500
TOTAL Imports	10300	10300	10000	7500	0	9500
TOTAL SUPPLY	28100	28100	27600	23800	7500	25700
Exports	2000	2000	1800	3900	0	3500
Dom. Leaf Consumption	8600	8600	8600	6600	0	6800
U.S. Leaf Dom. Consum.	1700	1700	1700	1500	0	1700
Other Foreign Consump.	8200	8200	8000	4800	0	6700
TOTAL Dom. Consumption	18500	18500	18300	12900	0	15200
TOTAL Disappearance	20500	20500	20100	16800	0	18700
Ending Stocks	7600	7600	7500	7000	0	7000
TOTAL DISTRIBUTION	28100	28100	27600	23800	0	25700

## Cigarette PSD

PSD Table						
Country	Hungary					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	2001	Revised	2002	Estimate	2003	Forecast
	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]	USDA Official[Old]	Post Estimate[New]
Market Year Begin		01/2001		01/2002		01/2003
Filter Production	19700	19700	18200	18700	0	18000
Non-Filter Production	1100	1100	1000	1000	0	1000
TOTAL Production	20800	20800	19200	19700	0	19000
Imports	386	386	300	300	0	300
TOTAL SUPPLY	21186	21186	19500	20000	0	19300
Exports	269	269	400	400	0	400
Domestic Consumption	20917	20917	19100	19600	0	18900
TOTAL DISTRIBUTION	21186	21186	19500	20000	0	19300